The Rural Telecommunications Associations:
OPASTCO
RICA
RTG

Ex Parte Presentation
CC Docket No. 96-45

Proceeding on the Joint Board's Recommended Decision concerning the ETC designation process and the FCC's rules regarding high-cost universal service support

December 16, 2004

Three Fundamental Recommendations

- **Jettison the Joint Board’s recommendation to limit high-cost support to primary lines.**

- **Adopt a tiered series of “safe harbor” ratios for determining wireless CETCs’ per-line support in rural service areas. These ratios would provide wireless CETCs with a fixed percentage of the rural ILEC’s per-line support, with the specific percentage determined by the size of the wireless carrier.**

- **Adopt minimum standardized guidelines for ETC applicants in rural service areas.**

The Problem: Providing Wireless CETCs with the Rural ILEC's Identical Per-Line Support is Causing Excessive Growth in the Rural High-Cost Program

- **In its Recommended Decision, the Joint Board correctly noted the cause of substantial growth in the rural High-Cost Program:**
  - **"Much of this growth [in high-cost support] represents supported wireless connections that supplement, rather than replace, wireline service. Our examination of the record reveals a potential for uncontrolled growth as more and more competitive ETCs are designated in rural and high-cost areas." (para. 67)**
- **The potential for uncontrolled fund growth is compounded by the identical support rule, which permits CETCs to receive the rural ILEC's identical per-line support, based on the unrelated costs of the ILEC.**
- **The Joint Board recognized that "funding a competitive ETC based on the ILEC's embedded costs may not be the most economically rational method for calculating support." (para. 96)**

USAC fund size projections demonstrate that distribution of rural ILECs' identical per-line support to CETCs has led to the escalation of the rural High-Cost Program.

$(Millions)	1Q 2003	1Q 2004	1Q 2005	% Change 2003 - 2005	2-Year Support Increase	% of Total 2-Year Support Increase
Rural High-Cost Support						
ILEC	$603.1	$609.9	$621.6	3.1%	$18.6	16.6%
CETC	$16.6	$75.7	$109.8	560.5%	$93.1	83.4%
Total	$619.7	$685.6	$731.4	18.0%	$111.6	100.0%

A Primary Line Restriction is the Wrong Answer

- Congress has gone on record in opposition to a primary line limitation. A provision in the *Consolidated Appropriations Act of 2005* prohibits the FCC from spending federal funds to implement a primary line restriction through September 2005.

- The vast majority of industry players agree that a primary line restriction is not the way to control the significant growth of the USF.
  - Investment in network infrastructure would be inhibited since support would be unpredictable and carriers would be uncertain of network cost recovery.
  - Rates for additional lines in high-cost areas would no longer be affordable and "reasonably comparable" to rates in urban areas.
  - The impact on small businesses would be particularly acute, thus jeopardizing rural economic development and future employment opportunities.
  - Implementation faces significant administrative hurdles, the costs of which would far outweigh the benefits.

The RTA's Interim Plan is the Solution…For Now

- The problem with the current rural high-cost mechanism for wireless CETCs is that it fails to account for either their cost of providing service or the underlying size of the carrier.
- The RTA's Interim Plan takes into account the costs of providing wireless service relative to wireline, as well as the size of the wireless carrier when determining the appropriate amount of support for wireless CETCs in rural service areas.
- The plan would also allow wireless carriers to receive support on their own costs, should they so choose.
- The plan recommends strong but reasonable eligibility criteria for ETC applicants in rural service areas to better ensure that future designations would serve the public interest.

The RTA's Interim Plan is the Solution…For Now

- **The plan would control the future growth of the High-Cost Program and maintain its viability while still ensuring that all ETCs in rural service areas receive sufficient support to achieve the universal service objectives in the 1996 Act.**

- **The plan is intended as an interim measure while the Joint Board conducts its review of the rural high-cost mechanisms. Ideally, it would serve as a transition to an economically rational and competitively neutral system in which all ETCs in rural service areas receive support based on their own embedded costs.**

Summary of the RTA Interim Plan

- The RTA Interim Plan establishes a tiered series of “safe harbor” ratios for determining a wireless CETC’s per-line support.
  - Tier IV Wireless Carriers – Carriers that have 100,000 or fewer subscribers would be eligible to receive 80% of the study area average per-line support received by the ILEC that offers service to the customer.
  - Tier III Wireless Carriers – Carriers that have between 100,001 and 500,000 subscribers would be eligible to receive 40% of the study area average per-line support received by the ILEC that offers service to the customer.
  - Tier II Wireless Carriers – Carriers that have over 500,000 subscribers but do not have a national footprint would be eligible to receive 20% of the study area average per-line support received by the ILEC that offers service to the customer.
  - Tier I Wireless Carriers – Carriers with a national footprint would not receive support.

Summary of the RTA Interim Plan

- If a wireless CETC believes that its actual costs justify a higher level of support, then it can elect to report its actual costs in order to receive additional support.
  - The additional support is limited to either the level of per-line support received by the ILEC or the statewide average per-line support level, whichever is greater.
- For existing wireless CETCs, there would be a two-year transition period after which they would begin to receive support based either on the ratio that applies to their particular tier or on their own costs.

Summary of the RTA Interim Plan

- The ratios in the plan are derived, in part, from a comparison of wireline and wireless investment data, which supports the presumption that wireless carriers' costs are lower than ILECs' costs. This is based upon ILEC and wireless networks as they currently exist.
  - Large wireless carrier networks typically do not cover many sparsely populated and costly rural areas.
  - Wireless carriers provide a different level and quality of service, do not have carrier of last resort obligations, and generally operate with minimal regulatory oversight.
- The ratios recognize that larger wireless carriers that serve predominantly metropolitan areas and benefit from economies of scale require less support than smaller, mostly rural wireless carriers. This is consistent with the rationale behind the separate mechanisms used for rural and non-rural ILECs.

Summary of the RTA Interim Plan

- The RTA Interim Plan establishes standardized minimum criteria for regulators to use when evaluating ETC applications in rural service areas:
  - The applicant must have adequate financial resources in order to provide quality services throughout the CETC designated service area.
  - The applicant must be capable of providing the supported services throughout the designated service area to all customers who make a reasonable request for service.
  - The applicant must demonstrate its ability to remain functional in emergency situations.
  - The applicant must commit to utilize high-cost funding only to support infrastructure within the ETC designated service area.
  - Regulators must consider the impact of the designation on the USF.
  - Regulators must continue to assess whether or not such a designation would create the potential for rural creamskimming by allowing the applicant to serve only the low-cost, high revenue customers in a rural telephone company's service area.
  - Regulators may choose to impose consumer protection requirements as a precondition for designation as an ETC.

Benefits of the RTA Interim Plan

- **It is easy to manage.**
- **It would result in a more measured distribution of limited high-cost support, thereby controlling the growth of the Fund.**
- **It would lessen the potential for wireless CETCs to receive large windfalls of support, in excess of the their actual cost requirements.**
- **It provides optionality to the CETC. Either they accept the "safe harbor" support level, or elect to perform a cost study and report their actual costs.**

Benefits of the RTA Interim Plan

- It targets more support to small, rural wireless CETCs who need it most.

- It is based on factual investment data for wireline and wireless carriers.

- It does not prejudge the Joint Board’s proceeding on the rural support mechanisms, but would still enable a smooth transition to a system of support based on each ETC’s own embedded costs.

Support for the RTA Interim Plan

- The RTA Interim Plan received support from a number of commenters in the FCC's proceeding:
  - Montana Public Service Commission
  - National Exchange Carrier Association
  - The Rural Carriers (a coalition of rural wireless carriers)
  - Mid-Sized Carrier Coalition (Vitelco, Valor, and Iowa Telecom)
  - Montana Independent Telecommunications Systems
  - Texas Statewide Telephone Cooperative, Inc.
  - Fred Williamson & Associates

- The plan was also supported by commenters in the Joint Board's proceeding on the rural support mechanisms:
  - Texas Statewide Telephone Cooperative, Inc.
  - Alaska Telephone Association
  - GVNW, Inc.
  - Fred Williamson & Associates

Three Fundamental Recommendations

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